

MEMORANDUM

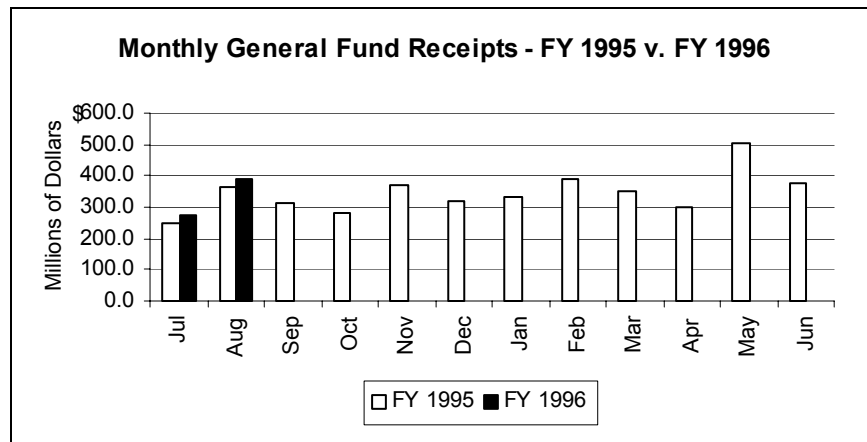
TO: Members of the Iowa Senate and
Members of the Iowa House of Representatives

FROM: Dennis C. Prouty

DATE: September 1, 1995

General Fund Receipts Through August 31, 1995

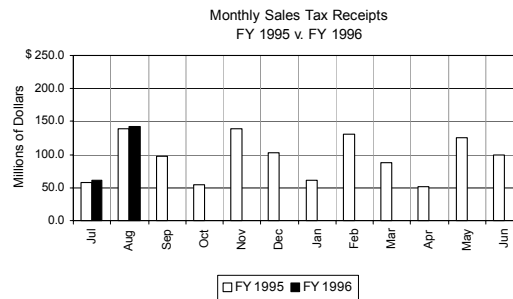
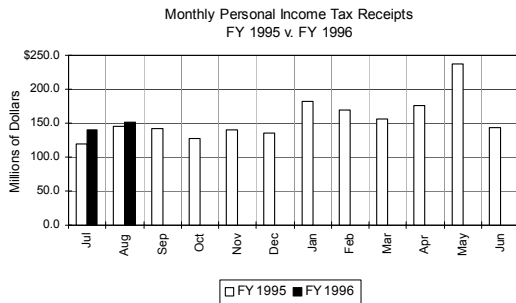
The attached spreadsheet represents total FY 1996 General Fund receipts, with comparable figures for FY 1995. These can also be compared to the latest FY 1996 estimate (\$4.285 billion) that was set by the Revenue Estimating Conference (REC) on July 10, 1995.



Total year-to-date General Fund receipts for FY 1996 increased 8.3% over FY 1995. Tax receipts showed an increase of 7.7%. Personal income tax receipts increased 10.3%. Sales tax receipts were 3.9% higher than the previous fiscal year. Use tax increased 8.9% over FY 1995, and corporate income tax receipts showed a 29.3% increase.

Personal income tax receipts for August were \$27.4 million more than August 1994. This represents more than half of the total increase in General Fund receipts compared to August a year ago. A significant share of the impact from tax law changes is not expected until the Spring of 1996. Changes in pension taxation and the dependent credit (SF 69) are expected to have a total FY 1996 impact of \$48.6 million. Of this amount, only \$6.6 million (13.5%) is expected to impact receipts through the end of the calendar year. Thus, a disproportionate share (86.5%) will impact

receipts/refunds in the second half of the fiscal year. Nonetheless, there is little doubt that receipts comfortably exceeded projections for the first two months.



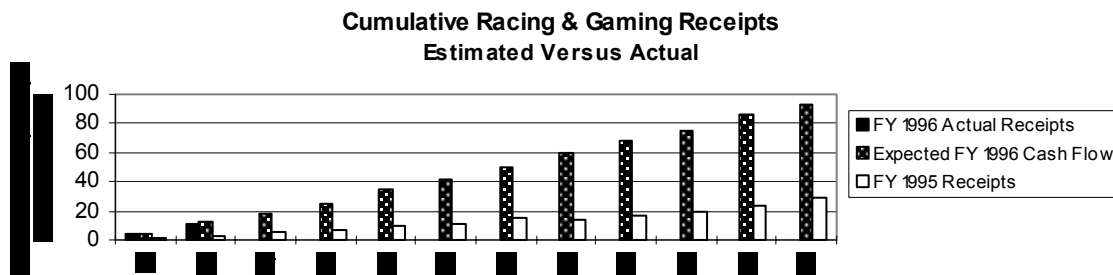
Sales tax receipts growth declined from July's level. Receipts in August were 3.0% higher than August 1994. Given the fact that this month's data includes receipts for both quarterly filers and monthly filers, the comparison is more reliable than it was in July.

Franchise tax receipts continue to be a cause for concern. After finishing FY 1995 15.1% less than the previous year, franchise tax receipts in the first two months of FY 1996 were 40.9% lower than the same period in FY 1994. On May 26 the Governor signed SF 478, which is an attempt to curtail the use of investment subsidiaries. The Act did not have any effect on FY 1995 receipts, but is expected to increase FY 1996 receipts more than \$8.0 million. Although data for the first two months indicate the legislation may not be entirely successful, it is important to note that receipts in the first two months represent a small share of total franchise tax receipts for the fiscal year.

Receipts Compared to REC Estimate

The July REC FY 1996 estimate of 3.2% was exceeded by 5.1 percentage points. Assuming each month is expected to increase by the REC estimate, the estimate for the first two months was exceeded by approximately \$31.2 million. This should not necessarily be taken as an indication that the next 10 months will meet or exceed expectations.

Racing and gaming receipts continue to be closely monitored. The July REC raised the FY 1996 estimate to \$93.4 million, which is \$64.9 million (227.7%) higher than FY 1995 receipts. Receipts through August were \$8.7 million (350.5%) higher than the same period in FY 1995. If cash flow adjustments are considered, receipts through August were \$0.9 million less than anticipated. The following chart illustrates the expected cash flow for FY 1996 racing and gaming receipts.



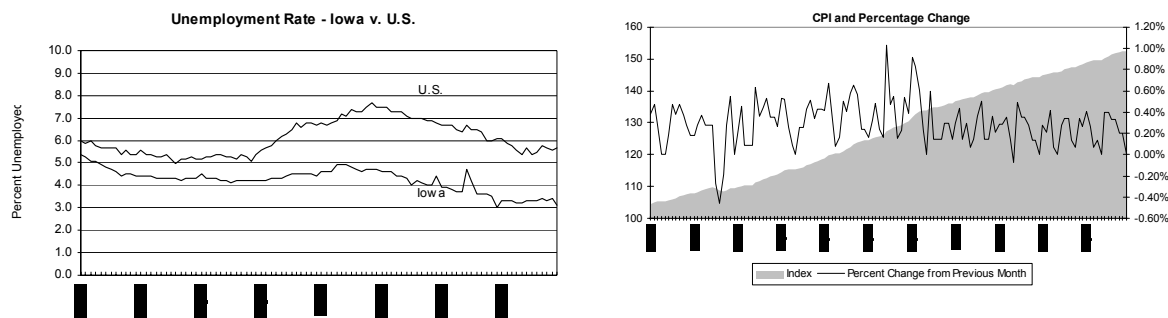
Obligations

School aid payments are to be paid in monthly installments, subject to the cash position of the State. All payments for FY 1995 have been made on schedule. Payments for FY 1996 will begin in September, and are expected to be completed by June 1996.

Status of the Economy

The seasonally adjusted percent unemployed for the State decreased to a record low 3.1% in July. The primary cause was a reduction in the size of the labor force, which decreased by almost 25,000 persons. Actual employment dropped slightly. The U.S. unemployment rate increased one-tenth of a percentage point to 5.7% in July.

Consumer prices in July remained unchanged. The Consumer Price Index (CPI) through July 1995 was 152.5 (1983=100), which is 2.8% higher than one year ago. The following series illustrate U.S. and Iowa unemployment comparisons and the CPI through June 1995.



The U.S. Bureau of Economic Analysis (BEA) has released national and regional population and economic projections through 2005. Iowa is expected to have below average growth in employment, personal income, and population, and above average per capita personal income growth. By 2005 the BEA estimates that Iowa's per capita personal income will increase to 91% of the U.S. average. In 1993, the figure was 88%. The following table compares BEA selected projections for Iowa and the nation.

Estimated Average Annual Growth Rates for Selected Variables (1993 through 2005)					
	Population	Employment	Gross State Product	Total Personal Income	Per Capita Personal Income
Iowa	0.40%	0.90%	1.80%	1.90%	1.50%
U.S. Average	0.90%	1.80%	2.20%	2.20%	1.20%

We will be mailing special tax and economic performance reports on a monthly basis. Feel free to contact us for additional information or if you feel the report needs clarification.

GENERAL FUND RECEIPTS - PREVIOUS COMPARED TO CURRENT PERIOD	July 1, 1995, through August 31, 1995, in millions of dollars					ESTIMATED GENERAL FUND RECEIPTS in millions of dollars		
	FY 1995		FY 1996		Year to Date	FY 95 Actual		FY 96 REC Estimate
	\$		\$		% CHANGE	FY 1995	Estimate	% CHANGE
Personal Income Tax	\$ 264.5		\$ 291.9		10.3%	\$ 1,875.0	\$ 1,891.7	0.9%
Sales Tax	196.8		204.4		3.9%	1,147.3	1,188.6	3.6%
Use Tax	37.2		40.5		8.9%	196.0	205.8	5.0%
Corporate Income Tax	19.7		25.5		29.3%	268.7	270.0	0.5%
Inheritance Tax	14.9		16.2		8.6%	89.2	90.9	1.9%
Insurance Premium Tax	0.1		0.0		-95.7%	102.1	101.0	-1.1%
Cigarette Tax	16.4		17.3		5.7%	93.3	94.0	0.8%
Tobacco Tax	0.8		0.9		7.4%	5.1	5.2	2.0%
Beer Tax	2.4		2.4		-3.7%	12.4	12.5	0.8%
Franchise Tax	4.1		2.4		-40.9%	28.9	33.4	15.6%
Miscellaneous Tax	1.6		0.0		-98.4%	1.0	0.9	-10.0%
Total Special Taxes	\$ 558.5		\$ 601.4		7.7%	\$ 3,819.0	\$ 3,894.0	2.0%
Institutional Payments	19.8		18.1		-8.6%	107.4	108.1	0.7%
Liquor Transfers:								
Profits	3.0		3.0		0.0%	26.4	25.4	-3.8%
7% Gross Revenue	1.5		1.5		0.0%	9.0	9.0	0.0%
Interest	1.0		2.5		136.4%	17.3	15.0	-13.3%
Fees	9.6		10.1		5.8%	57.3	60.3	5.2%
Judicial Revenue	7.4		5.4		-27.0%	48.4	40.1	-17.1%
Miscellaneous Receipts	9.0		9.9		10.7%	40.7	39.6	-2.7%
Racing and Gaming Receipts	2.5		11.2		350.5%	28.5	93.4	227.7%
TOTAL RECEIPTS	\$ 612.3		\$ 663.1		8.3%	\$ 4,154.0	\$ 4,284.9	3.2%